

RATHBUN AREA MENTAL HEALTH CENTER

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS**

June 30, 2004

**Peak & Gerdes, LLP
Certified Public Accountants
103 Benton Avenue East
Albia, IA 52531**

TABLE OF CONTENTS

		Page
BOARD OF DIRECTORS		3
INDEPENDENT AUDITOR'S REPORT		5
FINANCIAL STATEMENTS	Exhibit	
Statement of Financial Position	A	7
Statement of Activities	B	8
Statement of Functional Expenses	C	9
Statement of Cash Flows	D	10
Notes to Financial Statements		11-14
SUPPLEMENTAL INFORMATION	Schedule	
Comparison of Budget to Actual	1	16
Statement of Financial Position Detail	2	17
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING		18-19
SCHEDULE OF FINDINGS		20

RATHBUN AREA MENTAL HEALTH CENTER

BOARD OF DIRECTORS June 30, 2004

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Officers -		
Dennis Ryan	President	
Larry Bettis	Treasurer	
Cathy Reece	Secretary	
Appanoose County -		
Larry Bettis	Board Member	June, 2004
William Bostwick	Board Member	June, 2004
Dean Kaster	Board Member	June, 2004
Steve Kerber	Board Member	June, 2004
Lucas County -		
Richard Arnold	Board Member	June, 2004
Barb Martley	Board Member	June, 2004
Cathy Reece	Board Member	June, 2004
Monroe County -		
Diana Shehan	Board Member	June, 2004
Dennis Ryan	Board Member	June, 2004
Steve Kerber	Board Member	June, 2004
Wayne County -		
Ann Garber	Board Member	June, 2004
Don Greenlee	Board Member	June, 2004
Mendy Middlebrook	Board Member	June, 2004
Designated Directors -		
Appanoose - Dean Kaster	Board Member	June, 2004
Lucas - Cathy Reece	Board Member	June, 2004
Monroe - Dennis Ryan	Board Member	June, 2004
Wayne - Don Greenlee	Board Member	June, 2004
David Hook	Executive Director	

Rathbun Area Mental Health Center

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103 BENTON AVENUE EAST
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Rathbun Area Mental Health Center:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the Rathbun Area Mental Health Center, Centerville, Iowa, as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rathbun Area Mental Health Center at June 30, 2004, and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 2, 2004 on our consideration of the Rathbun Area Mental Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements referred to in the first paragraph taken as a whole. The supplemental information included on pages 16 and 17 is presented for purposes of additional analysis and is not a required part of the above basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements referred to above and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP
Certified Public Accountants

August 2, 2004

Financial Statements

RATHBUN AREA MENTAL HEALTH CENTER

Exhibit A

STATEMENT OF FINANCIAL POSITION
June 30, 2004

	Current Fund	Land, Building, and Equipment Fund	Total
	Unrestricted		
ASSETS			
Cash and cash equivalents	\$ 54,956	\$ -	\$ 54,956
Accounts receivable - settlement	3,433		3,433
Accounts receivable - patients services, less allowance for doubtful accounts (\$0)	30,656	-	30,656
Reimbursements receivable - contracts and grants	26,352	-	26,352
Prepaid expenses	2,214	-	2,214
Property and equipment at cost, less accumulated depreciation of \$83,338 (Note 2)	-	21,146	21,146
Total assets	<u>\$ 117,611</u>	<u>\$ 21,146</u>	<u>\$ 138,757</u>
LIABILITIES AND NET ASSETS			
Liabilities			
Compensated absences	\$ 6,756	\$ -	\$ 6,756
Note payable	5,000	-	5,000
Mortgage payable	19,519	-	19,519
Total liabilities	<u>31,275</u>	<u>-</u>	<u>31,275</u>
Net assets - unrestricted	<u>86,336</u>	<u>21,146</u>	<u>107,482</u>
Total liabilities and net assets	<u>\$ 117,611</u>	<u>\$ 21,146</u>	<u>\$ 138,757</u>

See notes to financial statements.

RATHBUN AREA MENTAL HEALTH CENTER

Exhibit B

STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

	Current Fund	Land, Building, and Equipment Fund	Total
	<u>Unrestricted</u>	<u>Fund</u>	<u></u>
PUBLIC SUPPORT AND REVENUES			
Public support -			
County appropriations	\$ 200,825	\$ -	\$ 200,825
Community Mental Health Services Block Grant	32,103	-	32,103
Iowa State University Grant	3,090	-	3,090
	<u>236,018</u>	<u>-</u>	<u>236,018</u>
Revenues -			
Patient fees and Title XIX	163,928	-	163,928
Rent income	2,080	-	2,080
Settlements	21,418	-	21,418
Investment income	63	-	63
	<u>187,489</u>	<u>-</u>	<u>187,489</u>
Total public support and revenues	<u>423,507</u>	<u>-</u>	<u>423,507</u>
EXPENSES			
Program services - Mental Health Center Programs	<u>355,236</u>	<u>6,562</u>	<u>361,798</u>
Changes in net assets from operations	68,271	(6,562)	61,709
OTHER CHANGES			
Property and equipment acquisitions	(621)	621	-
Net assets beginning of year	<u>18,686</u>	<u>27,087</u>	<u>45,773</u>
Net assets end of year	<u>\$ 86,336</u>	<u>\$ 21,146</u>	<u>\$ 107,482</u>

See notes to financial statements.

RATHBUN AREA MENTAL HEALTH CENTER

Exhibit C

STATEMENT OF FUNCTIONAL EXPENSES - MENTAL HEALTH CENTER PROGRAMS Year Ended June 30, 2004

Salaries and related expenses -	
Executive director	\$ 24,808
Professional staff salaries	97,925
Support staff salaries	51,853
FICA	13,419
Health insurance	9,943
Unemployment	265
Total salaries and related expenses	<u>198,213</u>
Psychiatric	86,171
Audit	1,745
Travel	7,144
Staff training	665
Telephone	5,310
Supplies/postage	6,966
Insurance and bonds	10,697
Facilities expense including janitorial	15,463
Repairs	569
Books and subscriptions	520
Interest/fees	2,271
Settlement	11,029
Legal fees	4,540
Lease charges	1,953
Computer expense	281
Miscellaneous	1,699
	<u>157,023</u>
Total expenses before depreciation	355,236
Depreciation	6,562
Total expenses	<u>\$ 361,798</u>

See notes to financial statements.

RATHBUN AREA MENTAL HEALTH CENTER

Exhibit D

STATEMENT OF CASH FLOWS Year Ended June 30, 2004

Cash flows from operating activities -	
Cash received from Counties	\$ 196,459
Cash received from Block Grants	31,309
Cash received from Iowa State University Grant	3,090
Cash received from patient fees and Title XIX	160,555
Cash received - rent income	2,080
Settlement	17,985
Interest received	63
Cash paid to employees and suppliers	(359,674)
Net cash provided by operating activities	<u>51,867</u>
Cash flows from investing activities -	
Purchase of property and equipment	(621)
Net cash used by investing activities	<u>(621)</u>
Cash flows from financing activities -	
Repayment of mortgage payable	(1,462)
Repayment of note payable	(600)
Net cash used by financing activities	<u>(2,062)</u>
Net increase in cash	49,184
Cash and cash equivalents at beginning of year	5,772
Cash and cash equivalents at end of year	<u>\$ 54,956</u>

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Change in net assets	\$ 68,271
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
(Increase) in accounts receivable - settlement	(3,433)
(Increase) in accounts receivable - patient services	(3,373)
(Increase) in reimbursements receivable - contracts and grants	(5,160)
Decrease in prepaid expenses	68
(Decrease) in accounts payable	(8,400)
Increase in compensated absences	3,894
Net cash provided by operating activities	<u>\$ 51,867</u>

See notes to financial statements.

RATHBUN AREA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Rathbun Area Mental Health Center (Center) is a non-profit corporation established to provide a comprehensive community mental health program for the diagnosis and treatment of psychiatric and psychological disorders and to promote the prevention of mental illness. Services are provided to residents of Appanoose, Lucas, Monroe and Wayne Counties.

The Center is exempt from income tax under Section 501(c) (3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provides tax exemption for corporations organized and operated exclusively for religious, charitable, or educational purposes.

The Center's financial statements are prepared in accordance with U.S. generally accepted accounting principles as prescribed by Financial Accounting Standards Board for non-profit corporations.

B. Fund Accounting

The accounts of the Center are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses. The various funds are grouped as follows in the financial statements:

Current Fund – The unrestricted fund accounts for all resources over which the Center has discretionary control to use in carrying on the operations of the organization in accordance with the limitations of its charter and bylaws except for unrestricted amounts invested in land, buildings and equipment that may be accounted for in a separate fund.

The Center's Board may designate portions of the current unrestricted fund for specific purposes, projects or investment as an aid in the planning of expenses and the conservation of assets. The Center maintains separate accounts for any designations within the current fund and segregates the designated and undesignated portions of the fund within the net assets section of the statement of financial position.

Land, Building and Equipment Fund – The land, building and equipment fund is used to accumulate the net investment in fixed assets and to account for the unexpended resources contributed specifically for the purpose of acquiring or replacing land, building or equipment for use in the operations of the organization.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

Note 1. Summary of Significant Accounting Policies (continued)

Purchases of property and equipment providing future benefits are directly charged against the current unrestricted fund balance and capitalized in the land, building and equipment fund.

D. Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Center and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

E. Assets and Liabilities

The following accounting policies are followed in preparing the statement of financial position.

Cash and Cash Equivalents – The Center considers savings accounts and all other highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Receivables – Receivables are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all the individual patient balances.

Property and Equipment – Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of 5 to 20 years. No interest costs were capitalized since there were no qualifying assets.

Compensated Absences – Center employees accumulate a limited amount of earned but unused vacation benefits payable to employees. Amounts representing the cost of compensated absences are recorded as liabilities and have been computed based on rates of pay in effect at June 30, 2004.

F. Patient Services Revenue

Patient services revenue is reported at the estimated realizable amounts from patients, third party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

G. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H. Total Column

The total column on the statement of financial position and the statement of activities is presented to facilitate financial analysis. Data in these columns does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Note 2. Property and Equipment

A summary of property and equipment follows:

	<u>Balance</u> <u>End of Year</u>
Land, Building and Improvements	\$ 68,995
Furniture and fixtures	<u>35,489</u>
Total cost	104,484
Less accumulated depreciation	<u>83,338</u>
Net	\$ <u>21,146</u>

Note 3. Note Payable

The Center borrowed \$7,000 in May 2001 to fund the purchase of a new roof. The note is unsecured, and is to be repaid in 70 monthly payments of \$100 beginning in August 2001. There is no interest charged on this loan.

The note maturities for this note payable are as follows:

<u>Year ended</u> <u>June 30,</u>	<u>Amount</u>
2005	\$ 2,700
2006	1,200
2007	<u>1,100</u>
	<u>\$ 5,000</u>

The Center is currently delinquent on this note.

Note 4. Mortgage Payable

The Center borrowed \$22,000 in October 2002 on its building. The debt is secured by a real estate mortgage on this property and is to be repaid with 7 ¼% interest in 59 payments of \$259.50, beginning on November 4, 2002 and continuing at monthly time intervals thereafter. A final balloon payment of \$13,059 is due and payable on October 4, 2007. However, this note was refinanced during the fiscal year.

In April 2004, the Center refinanced the above loan. The debt is secured by a real estate mortgage on this property and is to be repaid with 5 ¾% interest in 59 payments of \$291.65, beginning on May 4, 2004 and continuing at monthly time intervals thereafter. A final balloon payment of \$6,569 is due and payable on April 4, 2009.

The note maturities for this mortgage payable are as follows:

<u>Year ended</u> <u>June 30,</u>	<u>Amount</u>
2005	\$ 2,441
2006	2,585
2007	2,738
2008	2,899
2009	<u>8,856</u>
	<u>\$19,519</u>

Note 5. Lease Commitments

Office Space

Leases of office space are cancelable or will expire within the next fiscal year.
Rental expense for the use of office space for the year ended June 30, 2004 was \$10,275.

Copiers

The Center is leasing office equipment. The leases provide for 60 monthly payments of \$165.61.
Total rent expense for the office equipment for the year ended June 30, 2004 was \$1,953.
Future rental payments required by the lease terms are:

Year ended	
<u>June 30,</u>	<u>Amount</u>
2005	\$1,987
2006	1,696
2007	822
2008	822
2009	548
Total	<u>\$5,875</u>

Note 6. Risk Management

Rathbun Area Mental Health Center is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

Supplemental Information

RATHBUN AREA MENTAL HEALTH CENTER

Schedule 1

COMPARISON OF BUDGET TO ACTUAL
Year Ended June 30, 2004

	BUDGET	ACTUAL	(OVER) UNDER BUDGET
REVENUES			
Fee income and other	\$ 164,743	\$ 163,928	\$ 815
Community Mental Health Services Block Grant	32,000	32,103	(103)
County appropriations	180,817	200,825	(20,008)
Iowa State University Grant	-	3,090	(3,090)
Settlements	-	21,418	(21,418)
Investments and rent income	1,920	2,143	(223)
Total revenues	<u>379,480</u>	<u>423,507</u>	<u>(44,027)</u>
EXPENSES			
Salaries and related expenses -			
Executive director	35,000	24,808	10,192
Professional staff salaries	139,101	97,925	41,176
Support staff salaries	50,970	51,853	(883)
FICA	17,154	13,419	3,735
Health insurance	16,475	9,943	6,532
Unemployment	602	265	337
Total salaries and related expenses	<u>259,302</u>	<u>198,213</u>	<u>61,089</u>
Psychiatric	105,000	86,171	18,829
Audit	1,700	1,745	(45)
Travel	6,956	7,144	(188)
Staff training	1,400	665	735
Telephone	5,000	5,310	(310)
Supplies/postage	5,000	6,966	(1,966)
Insurance and bonds	11,438	10,697	741
Facilities expense including janitorial	14,409	15,463	(1,054)
Repairs	1,500	569	931
Books and subscriptions	250	520	(270)
Promissory note/credit card	4,314	-	4,314
Interest/fees	-	2,271	(2,271)
Settlement	-	11,029	(11,029)
Legal fees	-	4,540	(4,540)
Lease charges	2,900	1,953	947
Computer expense	240	281	(41)
Miscellaneous	400	1,699	(1,299)
	<u>160,507</u>	<u>157,023</u>	<u>3,484</u>
Total expenses before depreciation	<u>419,809</u>	<u>355,236</u>	<u>64,573</u>
Depreciation	-	6,562	(6,562)
Total expenses	<u>419,809</u>	<u>361,798</u>	<u>58,011</u>
Changes in net assets	<u>\$ (40,329)</u>	<u>\$ 61,709</u>	<u>\$ (102,038)</u>

See accompanying independent auditor's report.

RATHBUN AREA MENTAL HEALTH CENTER
STATEMENT OF FINANCIAL POSITION DETAIL
June 30, 2004

Schedule 2

June 30, 2004

DETAIL OF ACCOUNTS RECEIVABLE, PATIENT SERVICES

Centerville patients	\$ 12,507
Chariton patients	8,516
Corydon patients	4,440
Albia patients	5,193
	<u>\$ 30,656</u>

DETAIL OF REIMBURSEMENT RECEIVABLE - CONTRACTS AND GRANTS

Appanoose County	\$ 5,061
Lucas County	7,730
Wayne County	2,845
Monroe County	3,297
Community Mental Health Services Block Grants	7,419
	<u>\$ 26,352</u>

See accompanying independent auditor's report.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors of the
Rathbun Area Mental Health Center:

We have audited the financial statements of the Rathbun Area Mental Health Center, Centerville, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 2, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Rathbun Area Mental Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Center's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. Comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been partially resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rathbun Area Mental Health Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Rathbun Area Mental Health Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item (A) is a material weakness. Prior year reportable conditions have been resolved, except for items (A) and (B).

This report, a public record by law, is intended solely for the information and use of Rathbun Area Mental Health Center and other parties to whom the Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Rathbun Area Mental Health Center during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Gerdes, LLP
Certified Public Accountants

August 2, 2004

RATHBUN AREA MENTAL HEALTH CENTER

SCHEDULE OF FINDINGS
Year Ended June 30, 2004

Findings Related to the Financial Statements

REPORTABLE CONDITIONS:

None

Other Findings Related to Statutory Requirements and Other Matters

- (1) Payroll – Instances were noted where the employees kept their own compensatory time records, and were not turned in to the Center. Consequently, the Center was unable to determine how many compensatory time hours were earned and unused at any one time.

Instances were noted where the I9 forms were not found or were incomplete. In some cases, written authorization for employee pay rates could not be located.

An instance was noted where an employee did not receive overtime or compensatory time, even though the employee worked over 40 hours in a week. In addition, employee leave records were not consistently kept by the Center.

Recommendation – The Center maintain compensatory time and leave records for all employees, ensure all I9 forms are on file and are complete, maintain written authorization for employee pay rates, and pay overtime to non-exempt employees who work over 40 hours in a week.

Response – We will implement this recommendation.

Conclusion – Response accepted.